Group of Thirty

The Group of Thirty was established in December 1978, to explore basic problems in the functioning of the international economic system. It meets twice a year, for two to three days at a time. Between these meetings, study groups and researchers gather material to serve as a basis for the Group's discussions.

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Group of Thirty

The International Monetary Fund and the Private Markets

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The International Monetary Fund and the Private Markets

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Preface

This paper has grown out of the general work of the Group of Thirty on the international monetary system, and especially out of that of its committee on international banking. Accordingly, it is issued in all the names of all the members of the Group's Steering Committee (excepting Prof. Peter B. Kenen) and of two members of the banking committee that have taken a particular interest in this project—Dr. Otmar Emminger and Mr. John Heimann.

Robert Pringle
March, 1983

The International Monetary Fund and the Private Markets

The Case for an Early Approach to the Markets

This study suggests that the International Monetary Fund may soon need to borrow from private financial markets for the first time, to obtain supplementary bridging finance until new resources are made available under the recent agreements to enlarge general quota subscriptions and the General Arrangements to Borrow. It would be prudent for members of the Fund to encourage its staff to actively pursue preparations for the possibility of market borrowing. Certainly, the IMF should not wait until it faces a dire shortage of funds. Indeed, an early approach to the markets for relatively small sums might facilitate the rapid mobilization of market finance on a larger scale in case of sudden need.

Because member country legislatures need to approve the recently agreed increases in quota subscriptions and the GAB, those new resources would become available to the IMF only by late 1983 at the earliest and, more likely, only during 1984. Nor can there be confidence about the volume of the new resources thus made available until the all-important approval of the United States Congress has been obtained.

After allowing for undrawn commitments of about SDR 16 billion, or roughly $17.7 billion, including assistance arranged recently for Mexico, Argentina, Chile, and Brazil, the IMF can count only about SDR 8 billion, equivalent to roughly $9 billion, available for new lending (see Table 5, page 41). On that basis, given the probable further needs of member countries, we estimate that the Fund might need to borrow up to

the equivalent of about $9 billion to supplement its resources in the next twelve months.*

Estimates of the resources available to the IMF for new lending are always subject to some uncertainty, partly because some of its currency holdings may be unavailable for new lending when the countries issuing the currencies concerned face constraints on their balances of payments. Estimates of possible borrowing needs are likewise subject to uncertainty, because fresh demands on the Fund cannot be foreseen with assurance. That is especially true at the present juncture when the fall in world oil prices may oblige more large oil-exporting countries to seek IMF assistance, while at the same time reducing the chronic surpluses of some other oil exporters, notably Saudi Arabia, on which the IMF has relied for supplementary borrowed resources in the past.

Quota subscriptions of the Fund's member countries have always been the basic sources of its funds, although it has periodically supplemented its resources since 1962 by borrowing from member countries and Switzerland (which is not a member, but cooperates closely and actively). In January, 1982, the IMF's Executive Board confirmed that quotas should continue to be the main source of funds, while recognizing that borrowing provides an important source of temporary, supplementary resources**.

Although the IMF has never yet borrowed from the markets, its Articles of Agreement give it authority to borrow from any source and in the currency of any member country provided only that it obtains the consent of the government of the member country in whose currency it proposes to borrow***. (Thus the Fund cannot borrow Swiss francs as Switzerland is not a member; Switzerland, however, has lent money to the Fund in currencies other than its own).

At the beginning of 1981 the IMF did, indeed, publicly raise the possibility of a first approach to the markets. In the event, it was able to supplement its resources by further borrowing from member countries, but the possibility of market borrowing at some point has been kept open. The need for it may arise in a more acute form in the near future for several reasons. First, at a time when several leading countries are in

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*IMF accounts are denominated in Special Drawing Rights but, for convenience, their dollar equivalents are expressed here at the conversion rate of approximately SDR 1 = $1.1, applying in February, 1983.

**Executive Board Decision 7040—(82/7), 13 January, 1982. see page 45.

***Article VII, Section 1.

payments deficit and when the financial markets remain under strain, further applications for IMF assistance can be expected; second, there is uncertainty about the amounts and timing of supplementary resources the IMF may be able to borrow from member countries, including the persistent surplus oil exporters on which it has relied in the past; third, negotiations of arrangements to borrow from member countries have not always been quick.

The argument that it would be prudent for the IMF to make active preparations for the possibility of an early approach to the markets is not based on a short-term view alone. It is based also on the belief that it would be in the interest of the IMF, its member countries and the financial system to open the fullest range of options available to it for an unpredictable longer term. The attitudes of member countries to the IMF have changed in the past and could change again.

There is wide recognition that the policies followed by member countries as a condition of access to IMF assistance are more important than the sums which the IMF actually lends and that observance of those conditions by borrowing countries will, of itself, improve a country's economic performance and re-attract private capital. On that score it can be argued, and was by some member countries until the summer of 1982, that an enhanced role for the IMF did not necessarily depend on any substantial increase of its resources.

However, the latest move to speed the provision of new resources to the IMF is a material expression of the belief that they are important for member countries to make a more effective contribution toward adjustment. Such conditional assistance helps countries in payments difficulties, including those that have interrupted full debt service, to restore their creditworthiness and thus their ability to attract capital flows.

It can be argued that the case for keeping a wide range of options open has been reinforced by another development. The financing provided by the commercial banking system to complement recent IMF assistance complementary financing for other countries has provided concrete evidence of the new importance attached to a closer cooperative approach by the IMF, its members and the banking system. In one sense, complementary bank financing can be viewed as an alternative to IMF borrowing in the markets as a means of increasing the total funds made available to facilitate economic adjustment. However, that still leaves the argument that the IMF needs to put up money of its own to

attract complementary financing including, if necessary, periodic bridging finance borrowed by the IMF from the markets.

IMF Resources and Commitments

The IMF has augmented the general resources provided by the quota subscriptions since 1962, when the General Arrangements to Borrow came into being. Under the GAB, additional resources are made available to the Fund by the Group of Ten leading industrial countries* plus Switzerland. These and other arrangments to borrow additional resources from member countries are described on pages 17-19 and pages 27-29.

But the Fund cannot rely with assurance on an adequate flow of borrowed funds from surplus countries. Some commitments from official entities to lend to the Fund, including GAB participants, may not be usable when the Fund would like to call the loan because of weakness in the balance of payments position of the lender. In addition, in the event of a balance of payments need, an official lender to the Fund can request immediate repayment.

The urgency of the IMF's need is thrown into relief in Table 5 (page 41). We estimate that at the present time (March, 1983) the IMF's quota resources usable for lending** (consisting mainly of SDR holdings, the currencies of industrial countries and of some oil exporters) amount to approximately SDR 15 billion ($16.5 billion), and agreed undisbursed lines of credit (excluding GAB) to about SDR 9 billion. Against this, the IMF's undisbursed commitments under stand-by and extended arrangements are estimated at about SDR 16 billion. We further estimate that some SDR 7 billion of this was due to be financed from the Fund's quota resources, reducing the amount still available from this source for new lending to SDR 8 billion. A further SDR 9 billion was due to be financed from borrowed resources, reducing total available to zero. (The undrawn GAB lines of credit totalled SDR 6 billion but it is clear that not all of these GAB lines of credit could be utilized at the same time and they are, at present, restricted to use by participants in the agreement).

Meanwhile, claims on the Fund have risen to high levels. Reserve positions in the Fund—which represent reserve assets of member countries that could be used if they experienced balance of payments

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*United States, Japan, Germany, France, United Kingdom, Italy, the Netherlands, Belgium, Canada and Sweden.

**The concepts of "usable currencies" is described further on page 14.

difficulties—amount to about SDR 21 billion; and loan claims that are similarly liquid are about SDR 9 billion. It is improbable that all the members holding these liquid claims could be in balance of payments deficit at the same time. Thus it would not be expected that a large proportion of these claims would be encashed at any one time. However, they do represent a potential call on the Fund's resources in excess of its usable currency holdings and it is important that the Fund can assure their liquidity in the event of need.

The potential size of requests for Fund assistance in future months depends to a large extent on the action of members with large quotas—i.e. major industrial countries. Some of *these* countries have substantial balance of payments deficits. It is true that the role the Fund will be called upon to play in financing these deficits cannot be predicted with any degree of accuracy. However, in these circumstances of uncertainty, additional requests of very substantial Fund financing of payments deficits may be made before the increase in quotas becomes effective. This uncertainty may itself weaken the leverage the Fund needs to exert a constructive influence in situations that call for adjustment and restructuring.

Recent Developments

In January 1983, the Group of Ten leading industrial countries and Switzerland agreed to increase their commitments to provide periodical supplementary resources under the General Arrangements to Borrow from SDR 6.4 billion to SDR 17 billion (roughly from $6.7 to $18.7 billion). They agreed also that GAB resources would in future be available for relending by the IMF to all its members instead of, as hitherto, only to members of the G-10. Switerland, which had previously contributed to GAB financing without committing itself in advance to the sums it would contribute, is to become a participant in the GAB and has committed itself to provide a proportion of the enlarged GAB facility, namely 6 per cent, or about $1.1 billion.

In February 1983, the Interim Committee of 22 countries representing the full membership of the IMF agreed that the general quota subscriptions to the IMF should be increased by 47.5 per cent from SDR 61 billion to SDR 90 billion (from about $67 billion to $98.5 billion) under the eighth five-yearly review of IMF quotas.

However, amendment of the GAB requires acceptance by all the GAB countries, which in many countries requires legislation, and the quota increase must be approved by the Fund's Board of Governors with

a majority of 85 per cent of the voting power. A member's quota cannot be increased until it has consented to the increase and paid the subscription in full. No increase in quotas becomes effective before the Fund determines that members having not less than 70 per cent of present quotas have consented to the increases proposed for them.

Some of the main assistance programs agreed between member countries and the IMF since the summer of 1982 and being negotiated at the time of writing, (February, 1983), are summarized in the table below, along with complementary financings agreed with commercial banks and others.

Major IMF Assistance and Complementary Financings Mid-1982 to February 1983

	IMF Assistance		Complementary Financings by Commercial Banks	
	(billions of:)			
Agreed	SDRs	$	SDRs	$
Mexico	3.6	4.0	5.0	5.5
Argentina	2.0	2.2	1.5	1.7
Chile	0.8	0.9	(possibly to be agreed)	
Under Negotiation				
Brazil	5.0	5.5	4.4	4.8
Uruguay	0.4	0.5	(possibly to be agreed)	
Total	12.0	13.0		

Borrowing Options and Implications

In approving financial markets the International Monetary Fund would have several options, but nearly all would have similar implications. (One of these is that market borrowing, like borrowing from member countries, would provide the IMF with resources, without at the same time increasing the potential demand for Fund assistance, as is the case when quotas

are increased. However, the average cost of money to the Fund and therefore its members might be increased even more than it has been by borrowing from member countries, and a larger proportion of total resources might have to be obtained at floating rates of interest which would, in turn, increase the proportion of money lent by the Fund at floating interest rates; and a new element of foreign exchange risk would be introduced. In summary, market borrowing might entail a marginal increase in cost and in foreign exchange and interest rate uncertainty for the IMF and its member countries.)

In terms of the *denomination* of assets offered to investors, the IMF would seem to have the following main choices:

i) Assets denominated in *Special Drawing Rights* would carry no exchange rate risk for the IMF itself, but the appeal of such assets to the market would be limited by the fact that the composition of the SDR would meet the asset and liability matching requirements of only a limited part of the financial community. In the view of many bankers, there would need to be provisions for the option of immediate redemption or refinancing of SDR assets in the event of any changes in the SDR's composition. Investors would need assurance of liquidity.

ii) Alternatively, the IMF might wish to borrow simultaneously in the key financial centers the currencies constituting the SDR in proportion to their representation in the SDR "basket". This would have the advantage of establishing an IMF presence in several markets at the same time. But whether it sought access to the domestic or Euromarkets, the Fund would require the consent of the five issuing countries* which might pose difficulties for those in a weak balance of payments position.

iii) Because of the possible constraint mentioned above, the IMF might prefer to borrow in several key markets simultaneously, but not necessarily always in all the five issuing countries of SDR's currencies.

In our view, options (ii) or (iii) above would maximize the total that the Fund could raise in market finance at short notice.

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*Since January, 1981, the SDR is composed of US $0.54, DM 0.46, F 0.74, Y34 and 0.071, in pound sterling. The relative importance of these currencies in the value of the SDR is influenced by exchange rate fluctuations. For example, on January 25th, 1983, their shares were: US dollar 49.7 per cent; DM 17.3 per cent: the yen 13.1 per cent; sterling 10 per cent; and French franc 9.8 per cent.

A view presently held by some members of the Fund is that a continuous and even growing dependence on market financing would change the character of the Fund, as an institution of a cooperative nature that has always relied mainly on subscriptions from member countries, whose voting power in the Fund is closely linked to those subscriptions. It may be felt also that over time, large recourse to the markets by the Fund might come to be seen as an alternative to quota increases, which it cannot be, and weaken this cooperative character as well as the control of governments over its activities. Some official lenders may feel that the liquidity of their claims on the Fund might over time be reduced; while potential official borrowers as competitive. In our judgment, however, these concerns are misplaced, and are outweighed by the overriding requirement that the Fund should have, and be seen to have, adequate resources to strengthen the system at a time when it is under acute strain. Such concerns do not in any event apply to occasional or periodic recourse to the markets for bridging finance.

Market Approach

An overwhelming majority of bankers polled by the Group of Thirty in 1981 said that they thought the Fund would be able to borrow "large amounts" on international financial markets, although several raised "technical" questions about the IMF's status and its lack of a "conventional balance sheet".*

At the short end of the market, such borrowing might include the acceptance of short-dated deposits from banks or lines of credit with banks in key financial centers (requiring appropriate legal arrangements). It would be possible for the IMF to issue, also, short-dated obligations, with characteristics similar to those of US commercial paper or Treasury Bills, on one or more of the domestic money markets of the countries represented in the SDR. In the United States, for example, the IMF could issue short-dated discount instruments which would be exempted from registration by the Securities and Exchange Commission (SEC), and which might be regarded by investors as similar in some respects to US government securities. In the other four countries, legal, tax or other obstacles to such issues are unlikely to be insuperable if the host governments consent to IMF borrowing of their currencies.

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*The question and a summary of the responses are reprinted at the end of this paper in Appendix II. The profile which the IMF might wish to present to investors is discussed in Appendix I.

However, as the maturity of Fund lending presently financed by borrowing is in the range of 3-7 years, and as the Fund prudently seeks to match the maturities of its lending and borrowing as closely as possible, it might be more suitable for it to seek *medium-to-longer term market finance,* even if the recourse to market finance was not expected to be repeated in future. Again, as the techniques of borrowing should fit the purposes for which the funds were sought, this would clearly be desirable if it was anticipated that the IMF might have recourse to the financial markets on a regular basis for supplementary financing. In either case, a wider range of borrowing options would come into consideration.

In the quest for medium and longer-term funds, the IMF would have the option of both the international bond and bank loan markets. Like other borrowers, its presence in one of those markets would strengthen its standing in both. In practice, however, the IMF might find it easiest to make its initial approach to the international bank loan market for several reasons.

The bank loan market

The international bank loan market is best described as the wholesale sector of the international capital market. As such, it is usually in a position to supply funds to most borrowers in larger amounts than the international bond markets. Moreover, the banks making up this market can be expected to have a readier understanding of the IMF's special status than the wider spectrum of investors in the international bond markets. Nor would the IMF be competing as closely here with borrowers like the World Bank and European Investment Bank, which have the advantage of being development banks with conventional balance sheets and which have established themselves firmly in international bond markets over many years.

The largest syndicated loan to date on the international bank loan market has been the $4 billion raised for the French Government in 1982. It is our view that the IMF could in this way raise substantial amounts denominated in US dollars, and also by assembling an SDR basket from the individual currencies. As the authorities of all the countries concerned would have to consent to Fund borrowing of their currencies, the IMF might consider going to the Euromarkets for some of the currencies and to the domestic markets for others, depending on market conditions.

The market success of the IMF's first commercial loan would be an important consideration, and hence it would be preferable for the first

loan to be pitched at a size somewhat less than the maximum thought achievable. As regards the maturity of the loans, in present conditions, lenders might be most at ease with final maturities of five or seven years. If a maturity towards the longer end of this range or beyond it were sought, this might reduce the size of any such borrowing—though clearly the terms would depend on market conditions at the time.

Negotiable Instruments.

Alternatives or adjuncts to the syndicated bank loan market are the various markets for negotiable bonds and notes. In general, those markets provide some advantages over the loan market. Ultimate distribution is wider, as the spectrum of investors is broader. Moreover, the existence of a secondary market provides easy re-entry for additional borrowings at market-determined rates. In addition, the classical foreign bond markets offer scope for obtaining fixed-rate financing at maturities somewhat longer than available in the syndicated loan market. However, the principal disadvantage of the bond markets is the relatively smaller amounts which can be raised in them by most borrowers.

Again, the Fund might borrow either in SDR or in its constituent currencies. In general, the chief drawback of SDR-denominated bonds and notes, however priced, is their limited size (the largest begin an SDR 100 million floating rate offering by Ente Nationale per L'Energia Elettrica), though the IMF might be able to raise larger amounts than has normally been the case in the past.

Alternatively, the IMF might issue bonds or notes denominated in the five individual national currencies which comprise the SDR. As with the other borrowing options considered above, if one of the five currencies could not be borrowed, the Fund would have to accept the exchange risk, or consider other means of covering it (e.g. the Fund might effect swaps through lines with central banks). Under the current composition of the SDR, raising SDR 1 billion would require separate bond issues of the following magnitudes in each of the five component currencies:

$540	million
DM460	million
£71	million
FFr740	million
¥34,000	million

The amounts contained in the example above are fairly large compared with typical Eurobond offerings. However, a borrower of the

IMF's stature might issue such amounts. Additional flexibility might be provided by dividing each of the issues into two maturities, for example the equivalent of SDR 500 million 3-year and 7-year maturities.

An important additional benefit of this form of borrowing lies in the scope for obtaining fixed-rate financing in the individual currencies. All of the bond markets can provide such financing, though perhaps in smaller amounts than suggested above. The exception is the US dollar bond market, which could certainly accommodate $540 million of fixed-rate financing.

The five separate issues illustrated on the previous page could be executed in the Eurobond or the domestic markets. The Eurobond markets have the advantage that, particularly in the case of dollar financing, the documentation requirements are considerably less. However, as market conditions may change rapidly, many of these and other more technical issues should in our view be left for negotiation between the Fund and its creditors, and it is not sensible to attempt to prejudge the outcome.

The Options Summarized

The most important factor for the IMF when choosing amoung various borrowing options is the volume of money to be raised in a given period. This cannot be determined precisely in advance, since it will depend on a number of factors, including the date of effectiveness of increased quotas and the expansion of the GAB, the world economic situation and the number and size of countries requiring assistance. But it is evident that for substantial amounts, the syndicated loan market or large standby lines of credit with banks in the major centers would be the best. However, if it was considered that the Fund might need to have regular recourse to the markets, it would be appropriate for the IMF to consider eventually tapping every significant capital market open to it. This would be facilitated if, from an early stage, the IMF included some negotiable instruments in its liability structure.

Summary

The main points can be summarized as follows:

1) A need for supplementary bridging resources from the markets could arise before the recently agreed enlarged resources under quota subscriptions and the GAB become available to the IMF;

2) Members of the IMF should encourage the staff to continue active preparation for such a contingency, including, perhaps, an early entry into the markets for relatively small sums to pave the way for rapid mobilization of larger amounts in case of sudden need;

3) Initially, it might be advisable for the Fund to concentrate on the international bank loan market where funds are obtainable in larger amounts than on international bond markets and where the IMF's special status would be more readily understood by the professional banking community than it might be by the wider spectrum of investors in international bond markets;

4) However, in the event of continuous supplementary market financing, it might be in the IMF's interest to seek the widest possible spread of maturities, to offer investors a broad range of assets and to establish its presence in all sectors of the international capital market. In such circumstances, it might be in the IMF's interest to borrow not only in the world's key money markets for short and medium term funds, but also in the off-shore Eurobond and the classical foreign bond markets;

5) Market borrowing by the IMF would involve certain obstacles and costs, notably certain exchange and interest rate risks but such obstacles are surmountable. The precise techniques (or mix of techniques) should be decided in the light of market circumstances and the needs of the Fund. However, in present circumstances, where a sudden need for substantial supplementary resources might be experienced at a time when conventional sources of additional funds were not available on the required scale, we consider that the Fund should be authorized to approach the markets this year.

Appendix I

A Brief Explanation of the Fund's Operations, its Balance Sheet and Income Position

Membership and Resources

1. The Fund's membership comprises 146 countries and includes all the industrial market economies (except Switzerland) and most developing countries, as well as a number of centrally planned economies in Africa, Asia, and Europe. In addition to its regulatory and consultative role, the Fund provides temporary financing to members with balance of payments deficits by using the resources provided by members in strong balance of payments and international reserve positions. The Fund also supplements international liquidity, when the need arises, by allocating Special Drawing Rights (SDRs), an internationally created reserve asset, and supervises their use. In addition, the Fund administers, as trustee, two interest subsidy accounts to reduce the cost to eligible countries of certain forms of Fund assistance, and the winding-up of the Trust Fund established in 1976 to provide balance of payments assistance on concessional terms to developing countries.

2. Each member is assigned a quota, which reflects its relative importance in the world economy; quotas are reviewed at intervals of not more than 5 years. They determine a member's subscription to the Fund's resources, are the main basis for determining relative voting power, and are an important guide to the amount a member may borrow from the Fund if it has a need to finance a balance of payments deficit. The resources of the Fund consist primarily of these subscriptions which, as a rule, have to be paid 25 percent in international reserve assets—gold until 1978 and SDRs since then—and the remainder in the member's

own currency. However, the Fund may permit payment of the reserve asset subscription in currencies of other members or, exceptionally, in a member's own currency; in total, 20.5 percent of subscrptions have been paid with reserve assets and 79.5 percent with the member's currency. The Fund has supplemented its resources by borrowing when necessary to meet the needs of its members for balance of payments financing. Borrowing to date has been exclusively from official sources, but its statutes authorize the Fund from any sources, official or private, with the concurrence of the member whose currency is borrowed.

Financial Assistance

3. The Fund extends balance of payments assistance to members by providing usable foreign exchange or SDRs against payment of a member's own currency. On a quarterly basis, the Fund determines which members are in sufficiently strong balance of payments and reserve positions for their currencies to be usable for lending or for other payments by the Fund ("usable currencies"). A member indebted to the Fund whose position is judged sufficiently strong is expected to begin repaying outstanding loans in advance of the customary repayment period.

4. The Fund makes financial resources available to members under a range of policies and facilities.[1] These differ mainly in the type of balance of payments need they are intended to finance and in the associated adjustment effort required from member countries to qualify for assistance. The adjustment effort is intended to be sufficient for the borrowing member to overcome its balance of payments difficulties and to achieve a viable external position in the medium term. Under some facilities, drawings are phased, and the adequacy of the adherence to agreed policies are monitored by means of agreed performance criteria that must be met by the member in order to entitle it to make further drawings. The main financial terms of the various facilities in effect at present are shown Table 3 (page 33).

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[1]Members borrwing from the fund are said to make "purchases" (or "drawings") from the Fund, as the transaction takes the form of a purchase of the currencies of other members, or SDRs, against payment of an equivalent amount of the member's own currency. If the currency purchased is not a "freely usable" (i.e. reserve) currency, its issuer is obliged to convert the amount sold by the Fund into a "freely usable" currency; as a result, the purchasing member in fact receives a currency in which international settlements can be made. Upon maturity, members must buy back their currencies from the Fund using other currencies or SDRs, thereby making "repurchases," (i.e., repaying their borrowings).

5. Apart from borrowing under these facilities, calls on the Fund's resources can also be made by a member using its "reserve tranche position." A member's reserve tranche at any time represents the amount of reserve assets subscribed by the member plus the net amount of the member's currency that has been purchased by other members. It is measured by the excess of the member's quota over the Fund's holdings of its currency, excluding holdings that arise from the member's use of credit under tranche policies and the various special facilities. A member can draw on its reserve tranche positions at any time without policy conditions if it represents that it has a balance of payments need to do so. The reserve tranche position of any member with a balance of payments need therefore represents potentially an immediately callable claim on the Fund's resources. At the end of October, 1982, total reserve tranche positions amounted to SDR 16.7 billion (Table 1, page 30).

The Fund's Balance Sheet

6. The Fund's balance sheet at October 31, 1982 is reproduced on page 21. It shows assets of SDR 70.4 billion, comprising mainly currency holdings of SDR 61.0 billion,[1] holdings of SDRs amounting to SDR 4.7 billion, gold (valued at the former official price of SDR 35 an ounce) of SDR 3.6 billion,[2] and other assets. The Fund's accounts, together with all operations, are denominated in SDRs,[3] and members are obliged to maintain the SDR value of the Fund's holdings of their currencies except for holdings in the Borrowed Resources Suspense Accounts.[4] Currency holdings are derived mainly from subscriptions and from drawings on the Fund; the amount of currencies reflecting use of the individual Fund facilities are given in the Explanatory Notes (Note 4).[5] The Fund's holdings of SDRs derive from the payment of SDRs of subscriptions, repurchases, and charges; the Fund does not receive allocations of SDRs

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[1]Members are entitled to substitute for their currency non-negotiable, non-interest bearing securities which are encashable on demand by the Fund.

[2]Valued at the market price on October 31, 1982 the Fund's gold holdings of 103.4 million ounces amounted to SDR 41.2 billion.

[3]The SDR is a basket of five major currencies, the value of which is determined daily by summing the values in U.S. dollars, based on market exchange rates, of the specified amounts of the five currencies (US$ 0.54, DM 0.46, F 0.74, Y 34, UKL 0.071).

[4]Borrowed Resources Suspense Accounts are used only for temporary holding of borrowed resources pending their disbursement or repayment.

[5]As mentioned, a member borrowing from the Fund provides its own currency as instrument of indebtedenss. Fund lending therefore does not reduce the overall total of the Fund's holdings of currencies and SDRs, although it does change the composition of those assets; if financed from borrowed resources, drawings raise the Fund's currency holdings concurrently with its liabilities. A supplementary presentation of accounts (Table 1, page 30) classifies currency holdings by source for the period 1978-1982.

which are made only to Fund members that participate in the SDR department. The Fund may use SDRs not only to provide assistance to members, but also to acquire currencies the Fund needs—e.g. for the repayment of the Fund's own borrowing, or directly to service its debts under some agreements. The gold holdings derive from the various payments to the Fund that formerly had to be made in gold; the Fund's gold may be sold, by a decision approved by a majority of 85 percent of the voting power in the Executive Board, and the proceeds used for a variety of purposes, including the discharge of the Fund's obligations. (The Fund may no longer buy gold but can accept payments from a member in gold at market-related prices, if it so decides with an 85 percent majority of voting power.)

7. The liability side of the Fund's balance sheet includes subscriptions, which constitute the Fund's paid-in quotas amounting to SDR 61.1 billion at October 31, 1982, accumulated reserves of SDR 0.9 billion, borrowing amounting to SDR 7.5 billion, and other liabilities.[1] Subsumed in the subscriptions but not shown separately in the balance sheet are members' reserve positions which, as discussed, represent potentially an immediately callable demand on the Fund's resources.[2]

Revolving Character of Fund Resources

8. An important feature of the Fund's assets is the short-to-medium-term maturity of its assistance to members. Loans are repayable after a grace period in quarterly or semi-annual installments; these are to be made between the third and fifth year after the drawing for all loans financed from the Fund's own resources except extended facility loans, which are repaid between the fourth and tenth years. Supplementary finance and enlarged access drawings, which are financed from borrowed resources, are repayable beginning 3½ years and ending 7 years after the drawing. These repayment terms indicate the maximum maturities of Fund loans, as members are entitled to make repayments at any time, and expected to

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[1]Any member may withdraw from the Fund at any time by written notice, and withdrawal becomes effective upon receipt of such a notice. Settlement of accounts between the Fund and a withdrawing member is to occur with reasonable dispatch, but no payment may be made until six months after the date of withdrawal. The Fund may not be liquidated except by a decision of the Board of Governors requiring a majority of votes cast, but the Executive Board may temporarily suspend all operations and transactions if it decides that liquidation of the Fund may be necessary. If the Fund goes into liquidation within six months of a member's withdrawal, the accounts between the Fund and the member shall be settled in accordance with the provisions governing liquidation of the Fund.

[2]Reserve positions in the Fund are shown in the supplementary presentation of accounts (Table 1, page 30).

make early repayments as and when their balance of payments and reserve positions improve. This repayment pattern strengthens the Fund's liquidity position and its ability to assist other members whose balance of payments and reserve positions are deteriorating.

9. While its statutes allow the Fund to stretch repayment that would result in exceptional hardship for a member by rescheduling obligations beyond the maximum maturity period associated with the facility under which a drawing was made, the Fund has not used this authority. However, within the normal limits of access to its resources, the Fund in a number of instances has made financial support available under a new arrangement to a member undertaking adjustment policies when balance of payment problems proved to be of a more persistent nature than could be solved in the framework of one stand-by or extended arrangement.

Fund Borrowing

10. Over the years, the Fund has entered into a number of borrowing arrangements to supplement the resources available from quota subscriptions. In 1962, the Fund and ten major industrial countries that constitute the Group of Ten[1] entered into the General Arrangements to Borrow (GAB), which permit the Fund to borrow from this group of countries to finance purchases from the Fund by any of them. The GAB were originally concluded for a period of four years but have been periodically renewed and at present total SDR 6.4 billion.[2] One of the purposes of the GAB is to ensure that the Fund is able to meet requests for support from members with large quotas while safeguarding its ability to assist other members. The total of undrawn lines of credit under the GAB is currently SDR 5.7 billion; however, the Fund cannot borrow the whole of this amount at any one time since it would not borrow the currency of the participant for whose benefit the GAB is activated.

11. The Fund's other borrowing arrangements have been of a temporary character and financed special lending facilities of the Fund. The two oil facilities, now almost repaid, involved Fund borrowing amounting to a total of SDR 6.9 billion in 1974-76 from 17 countries and institutions. The supplementary financing facility, established in 1979, is financed by

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[1]Belgium, Canada, France, the Federal Republic of Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States. In addition, Switzerland has made resources available on some occasions of GAB activation.

[2]Agreement has been reached among participants to increase the GAB to SDR 17 billion and, in specified circumstances to make GAB resources available to finance drawings by nonparticipants. Switzerland will become a participant in the enlarged GAB.

bilateral loan agreements between the Fund and 14 countries or institutions totaling SDR 7.8 billion. Most recently, in order to finance loans to members under the policy of enlarged access, the Fund concluded an agreement with the Saudi Arabian Monetary Agency (SAMA) to borrow up to SDR 8 billion, as well as agreements with the BIS and the central banks under which 18 countries or institutions are making available a total of SDR 1.3 billion.

12. Loan claims on the Fund held by member countries or their agencies are encashable on demand if the member represents that it has a need because of current and prospective balance of payments developments and changes in reserve holdings. Under these conditions the Fund is committed to repay its borrowing upon demand, or to arrange for the purchase of the claim by another member. Repayment is made out of the Fund's general resources and *all the Fund's assets are available to meet its obligations in accordance with its statutes, Rules and decisions.* An additional means of liquidity not affecting Fund resources was incorporated in recent loan agreements which allow the lender to request promissory notes in bearer form to the extent of its claims on the Fund; such notes would be transferable to official or private parties. In contrast to loan claims, promissory notes are not encashable by the holder in advance of scheduled maturity.

13. For potential private lenders to the Fund, particular interest may attach to the mechanism for the solution of disputes incorporated in the borrowing agreement with the SAMA. The agreement contains a procedure of arbitration for questions of respective rights and obligations arising between the Fund and SAMA.[1] Moreover, as mentioned, SAMA is entitled at any time to request the Fund to provide bearer notes for outstanding loans. Notes issued under these provisions are governed by New York law and, with respect to such notes, the Fund agreed to waive its immunity from judicial process and to submit to the jurisdiction of the courts of New York, England, or of the Canton of Geneva in Switzerland.

14. As of end-October 1982, outstanding borrowings by the Fund totalled SDR 7.5 billiion; undrawn lines of credit under the GAB were SDR 5.7 billion and under the supplementary facility and enlarged access policy SDR 10.5 billion. The initial maturity of the bulk of the Fund's borrowing is in the range 3½-7 years, corresponding to the maturity of the

[1]See, e.g., para 18 of the Borrowing Agreement with the Saudi Arabian Monetary Agency, reproduced in *Annual Report 1981*, p. 172ff.

Fund's lending financed with borrowed resources; exceptions to this general rule of matching the maturity of borrowing and loans are the short-term credit loans from the BIS and central banks of SDR 1.3 billion, which have initial maturities of up to 2 years.

Fund Liquidity and Borrowing Guidelines

15. The Fund's Executive Board regularly reviews the Fund's liquidity position and financing requirements. In this context, it has established Guidelines for Borrowing (reproduced below, page 35), which state that the Fund will not allow the total of outstanding borrowing by the Fund plus unused credit lines extended to the Fund to exceed the range of 50 to 60 percent of the total of Fund quotas. Because of their special nature, only one half of unused GAB lines of credit—or the total of outstanding GAB borrowing, if this is greater—are included in this total. In the event that outstanding borrowing and unused credit lines reach 50 percent of quotas, the Executive Board will assess the various technical factors that determine, at that time, the availability of unused lines of credit; while this assessment is carried out, the ratio would not be allowed to exceed 60 percent. These considerations are subject to review by Executive Directors in case of major developments; they will at any rate be reviewed, and adjusted as appropriate, when the Eighth General Review of Quotas has been completed. On October 31, 1982, total outstanding borrowing and unused credit lines, calculated in accordance with these Guidelines, were equal to 33.5 percent of quotas of SDR 61.1 billion.

The Fund's Income Position

16. The most important determinants of the Fund's net income position are the volume of use of Fund resources in the reserve tranche and the credit tranches, the rate of charge on use of Fund resources, the rate of interest on the SDR, and the rate of remuneration paid by the Fund to members whose currencies have been used in loans. The Fund's income position and its major determinants are shown in Table 2 (page 32) for the financial years 1978-82. At October 31, 1982, the Fund's reserves amounted to SDR 939 million. In order to achieve appropriate increases in the Fund's reserves, the Executive Board has established the target of realizing net income each year equivalent to three percent of the Fund's reserves at the end of the previous year.

The Fund's financial position is reviewed at the beginning of each financial year, and the rate of interest charge on lending to members

financed from the Fund's own resources and the rate of remuneration may be adjusted on the basis of the estimated income and expense of the Fund during the coming year and the target amount of income for the year. The income position is also reviewed at mid-year and the rate of interest on lending to members and the rate of remuneration adjusted as may be necessary. For the year commencing May 1, 1982, the rate of interest on use of the Fund's own resources was set at 6.6 percent and the rate of remuneration continued at 85 percent of the interest rate on the SDR.[1] The difference between the rate of renumeration the Fund pays on the currencies it uses and the rate of interest it receives, which is lower, is made possible by the Fund's holding of interest-free resources derived primarily from net sales of gold received as reserve asset subscription and from reserves. Charges on the use of borrowed resources under the Fund's current policy are set of semi-annually and reflect the interest cost to the Fund of borrowing plus a margin of 0.2 percent.

[1]The interest rate on the SDR is set quarterly and is equal to the weighted average of the market yield on three-month U.S. Treasury bills, the three-month interbank deposit rate in Germany, three-month interest money rate against private paper in France, the discount rate on two-month (private) bills in Japan, and the market yield for three-month U.K. Treasury bills. At October 31, 1982, the SDR rate of interest was 8.90 percent.

GENERAL DEPARTMENT

(Note 1)

BALANCE SHEET

as at October 31, 1982

(Amounts expressed in special drawing rights)

(Note 2)

Assets	
Currencies and Securities (Notes 3 and 4)	61,032,295,743
Special Drawing Rights	4,673,293,406
Gold with Depositories (Note 2)	3,620,396,120
Borrowed Resources Held in Suspense (Note 1)	281,946,232
Charges Receivable (Note 4)	186,305,452
Accrued Charges (Note 4)	262,544,160
Other Assets (Note 2)	295,986,699
Total Assets	70,352,767,812
Capital, Reserves and Liabilities	
Capital	
Subscriptions of Members	61,059,800,000
Reserves (Note 6)	938,508,810
Liabilities	
Borrowing (Note 5)	7,537,756,897
Accrued Remuneration (Note 4)	509,409,243
Interest Payable	13,133,015
Accrued Interest	263,911,041
Other Liabilities	30,248,806
Total Capital, Reserves and Liabilities	70,352,767,812

The accompanying notes are an integral part of the financial statements.

GENERAL DEPARTMENT

(Note 1)

STATEMENT OF RESERVES

as at October 31, 1982

Amounts expressed in special drawing rights

(Note 2)

Special Reserve	
Balance, April 30, 1982	569,740,289
General Reserve	
Balance, April 30, 1982	365,579,703
Net Income for the Six Months Ended October 31, 1982	3,188,818
Total Reserves and Net Income	938,508,810

The accompanying notes are an integral part of the financial statements.

GENERAL DEPARTMENT
NOTES TO THE FINANCIAL STATEMENTS

1. General Department

Under the Articles of Agreement, the General Department consists of the General Resources Account, the Special Disbursement Account and the Investment Account. The Investment Account was not operative at October 31, 1982. The General Department also includes Borrowed Resources Suspense Accounts which have been established by the Executive Board in order to hold and invest currencies borrowed before these can be used in a transaction or operation or received in repurchases before repayments to lenders can be made.

General Resources Account

Assets held in the General Resources Account comprise gold, currencies of the Fund's member countries, and special drawing rights (SDRs). The Fund's resources in the General Resources Account are made available to members in accordance with the Fund's policies either in the form of currencies or SDRs which members purchase against the payment of their own currencies. The amount of such use is related to a member's quota in the Fund.

In addition to purchases under the Fund's regular facilities, members may use the Fund's resources under decisions on Compensatory Financing (to assist members, particularly primary exporters, encountering payments difficulties produced by temporary shortfalls attributable to circumstances beyond their control and members encountering payments difficulties produced by an excess in the cost of their cereal imports) and Buffer Stock Financing (to assist members in connection with the financing of international buffer stocks of primary products), the Extended Fund Facility (to provide medium-term assistance to members to make structural adjustments in their economies), and the Supplementary Financing Facility and the Policy on Enlarged Access (to assist members facing serious payments imbalances that are large in relation to their quotas). Members were also able to use the Oil Facility (for balance of payments problems caused by increases in the cost of petroleum and petroleum products). Use of the Fund's resources is dependent on members having a balance of payments need.

Gold transactions, receipt of SDRs in payment of charges, repurchases by members, and use of SDRs by the Fund take place through the General Resources Accounts

Borrowed Resources Suspense Account

Resources of the Borrowed Resources Suspense Accounts, which became operational in May 1981, derive from currencies of the Fund's member countries borrowed under arrangements between the Fund and certain of its members or institutions within their territories, the Bank for International Settlements and the Swiss National Bank. Members are not obligated to maintain the SDR value of their currencies held by the Fund in the Borrowed Resources Suspense Accounts, and their SDR value is covered mainly by investments in SDR denominated obligations.

At October 31, 1982 borrowed resources held in suspense were as follows:

SDR 281,946,232

Special Disbursement Account

The Special Disbursement Account was activated on June 30, 1981. The Fund, as Trustee, decided that the Trust Fund shall be terminated as of April 30, 1981. Under the relevant decision, resources received by the Trust Fund subsequent to the termination date are to be transferred to the Special Disbursement Account, the first SDR 750 million of which are to be transferred to the Supplementary Financing Facility Subsidy Account. At October 31, 1982 SDR 25,734,435 has been received into the Special Disbursement Account from the Trust Fund and transferrd to the Supplementary Financing Facility Subsidy Account. There were no resources held in the Special Disbursement Account at October 31, 1982.

2. Accounting Practices

Unit of Account

The accounts of the General Resources Account are expressed in terms of the SDR, the currency value of which is determined by the Fund. Members' currencies and securities are valued in terms of the SDR on the basis of representative rates of exchange determined in accordance with decisions of the Executive Board. Gold with depositories is valued on the basis that one unit of special drawing rights is equivalent to 0.888671 gram of fine gold.

Property, Furniture and Equipment

The established policy of the Fund is to charge as an expense of each accounting period the total [illegible] incurred for fixed property, furniture and equipment.

Income and Expense

The Fund maintains its books of accounts on an accrual basis and, accordingly, recognizes income as it is earned and records expenses as they are incurred. It is the practice of the Fund to make all calculations on the basis of the exact number of days in the accounting period.

3. Currencies and Securities

Each member has the option to substitute nonnegotiable and noninterest-bearing securities for that amount of the member's currency held by the Fund which is in excess of one-quarter of 1 per cent of the member's quota.

A currency held by the Fund is revalued whenever that currency is used by the Fund in a transaction with another member, or for such other purposes as the Fund may decide. All currency holdings are revalued as at April 30 each year. Whenever the Fund revalues its holdings of a member's currency, an account receivable or an account payable is established for the amount of currency payable by or to the member in order to maintain the value of the currency in terms of the SDR. The balances of the accounts receivable or payable are reflected in the Fund's currency holdings. At October 31, 1982 accounts receivable amounted to SDR 1,505,197,356 and accounts payable amounted to SDR 723,144,588. Members are not obligated to maintain the SDR value of their currencies held by the Fund in Borrowed Resources Suspense Accounts.

4. Operational Transactions

For the six months ended October 31, 1982, members' purchases amounted to SDR 2,790 million of which SDR 203 million was the reserve tranche, SDR 754 million was under the Fund's regular policies, SDR 765 million was under Compensatory Financing, SDR 111 million was under the Buffer Stock Financing, and SDR 957 million was under the Extended Fund Facility. Of the total purchases, SDR 857 million was financed

under the Supplementary Financing Facility and SDR 156 million under Enlarged Access Resources. Over the same period, repurchases by members totaled SDR 770 million. Purchases in the reserve tranche made after April 1, 1978 are not subject to repurchase.

At October 31, 1982 outstanding purchases of members were as follows (in millions of SDRs):

Reserve Tranche	6
Regular Facilities	3,332
Compensatory Financing	4,181
Buffer Stock Financing	111
Extended Fund Facility	2,620
Oil Facility	216
Supplementary Financing Facility:	
Under stand-by arrangements	3,443
Under extended arrangements	1,525
Enlarged Access Resources:	
Under stand-by arrangements	482
Under extended arrangements	835
Total	16,751

The Fund levies charges on its holdings of a member's currency to the extent that the holdings (i) have been acquired under the policy that has been the subject of an exclusion, or (ii) exceed the member's quota after deducting holdings that are the subject of an exclusion. Remuneration is paid on the amounts by which 75 per cent of a member's quota on April 1, 1978, adjusted for increases or decreases in the member's quota after that date, exceeds the Fund's holdings of the member's currency after deducting amounts that are the subject of an exclusion. At October 31, 1982 the total holdings on which the Fund levies charges amounted to SDR 16,698 million and the total creditor postions on which the Fund pays remuneration amounted to SDR 10,748 million.

Members incur certain obligations to the Fund with the use of Fund resources from the General Resources Account. One member, Democratic Kampuchea, has not fulfilled its financial obligations to repurchase a part of the Fund's holdings of the member's currency, to pay charges on currency balances held by the Fund and to submit information on monetary reserves. At October 31, 1982, unpaid charges receivable from

Democratic Kampuchea amounted to SDR 5,329,440 and are included in the balance sheet as charges receivable and as a deferred credit. On December 19, 1978 the Executive Board decided that Democratic Kampuchea may not make use of the general resources of the Fund until such time as Democratic Kampuchea is fulfilling it obligations under the Articles of Agreement to which Article XXVI, Section 2(a) applies.

5. Borrowing

Outstanding borrowing by the Fund at October 31, 1982 was as follows:

Oil Facility	SDR 196,882,361
Supplementary Financing Facility	4,968,583,722
Enlarged Access Resources	1,595,036,814
General Arrangements to Borrow	777,254,000
	SDR 7,537,756,897

Oil Facility

The Fund entered into borrowing agreements with various members and Switzerland, or institutions within their territories, under which these lenders agreed to provide the Fund with specified currencies to finance purchases of currencies from the Fund by other members under the Oil Facility. The outstanding borrowings carry interest rates of 7 per cent for amounts called under the 1974 borrowing agreements and 7¼ per cent for amounts called under the 1975 borrowing agreements. Any calls made by the Fund under these agreements are repayable in installments beginning not later than 3½ years, to be completed not later than 7 years, after the date of the calls.

Supplementary Financing Facility (SFF)

The Supplementary Financing Facility entered into force on February 23, 1979. The Fund has entered into borrowing agreements with 14 members, or institutions within their territories, and with the Swiss National Bank under which the lenders have agreed to make resources available to the Fund, at call, up to SDR 7.784 billion over the next four years to finance purchases by members under this Facility. Interest paid by the Fund on amounts borrowed under the borrowing agreements is based on the average yield on U.S. Government securities with a constant maturity of five years.

Enlarged Access Resources (EAR)

The Fund has entered into borrowing agreements with various members, or institutions within their territories, the Bank for International Settlements and the Swiss National Bank under which the lenders have agreed to make resources available to the Fund, up to SDR 9.305 billion, to finance purchases by members under the Fund's policy on Enlarged Access. The maturities of borrowing by the Fund under these agreements vary from six months to seven years. Interest paid by the Fund on amounts borrowed under these agreements is at variable rates, which are established periodically, and are related to market interest rates.

General Arrangements to Borrow (GAB)

Ten members, or institutions within their territories, have adhered to the General Arrangements to Borrow under which the Fund may borrow their currencies up to specified amounts when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. These arrangements first became effective from October 24, 1962 and have been renewed until October 23, 1985. The Swiss Confederation has been associated with the GAB since June 1964. The present arrangement with the Swiss Confederation expires on July 15, 1985. The Fund pays a transfer charge of one-half of one per cent on amounts borrowed under these arrangements, and, in addtion, pays interest at the rates at which the Fund levies charges on the holdings of currencies resulting from purchases for which it incurred the indebtedness, provided that the rate of interest shall be not less than 4 per cent per annum on any part of the indebtedness. Any calls made by the Fund under the GAB are repayable within five years.

The interest rate being paid by the Fund on indebtedness under the General Arrangements to Borrow was 4 per cent per annum.

The Fund has established guidelines for borrowing, which provide that the Fund will not allow the total of outstanding borrowing plus unused credit lines to exceed the range of 50 to 60 per cent of the total of Fund quotas. The total shall include, in respect of the GAB, either outstanding borrowing by the Fund under the GAB or one-half of the total credit lines under the GAB, whichever is the greater. On October 31, 1982 total outstanding borrowing and unused credit lines, calculated in accordance with these guidelines, were equal to 33.5 per cent of quotas.

6. Reserves

The Fund determines annually what part of its net income shall be placed to the General Reserve or to the Special Reserve, and what part, if any, shall be distributed. The Fund may use the Special Reserve for any purpose for which it may use the General Reserve, except distribution.

Income from investments in U.S. Government securities was placed to the Special Reserve from November 1, 1957 until February 15, 1972 when the investment program was terminated. A decision by the Executive Board provides that any administrative deficit for any financial year must be written off first against this Reserve.

7. Other Compensations and Benefits

The Fund pays various allowances to or on behalf of executive directors and staff including the employer's contribution to the Staff Retirement Plan. All contributions to the Plan and all other assets, liabilities and income of the Plan are held separately and can be used or incurred only for the benefit of the participants in the Plan and their beneficiaries. The funding of the Plan is based upon a percentage of a national gross salary, and the employer contributes that part of the costs and expenses of the Plan not provided by the contributions of the participants.

Experience gains and losses of the Plan, as determined by the actuary engaged by the Pension Committee, are amortized over a period of 15 years. The unamortized experience losses at October 31, 1982 amounted to SDR 56.4 million (calculated at the SDR value of the U.S. dollar on that date). Payments over the next 15 years to amortize the actuarial experience losses are estimated to be approximately SDR 76.6 million (at the October 31, 1982 SDR/US$ rate).

Table 1. Balance Sheet[1]

(In millions of SDRs)

	Financial Years Ended April 30					Six Months Ended October 31,
Assets	1978	1979	1980	1981	1982	1982
Currency holdings representing:						
Outstanding purchases[2]						
Regular facilities	3,420	2,316	2,293	2,630	3,263	3,332
Compensatory Financing	2,668	2,945	2,873	2,617	3,634	4,181
Buffer Stock Financing	—	48	74	—	—	111
Extended Fund Facility	175	407	504	980	2,159	2,620
Oil Facility	6,313	4,240	2,494	1,581	565	216
Supplementary Financing Facility	—	—	502	2,018	4,112	4,968
Enlarged Access resources	—	—	—	—	1,161	1,317
Total Outstanding Purchases	12,576	9,956	8,740	9,826	14,903	16,745
Other currency holdings	22,780	29,611	29,931	46,199	44,958	44,287
Gold[3]	4,507	4,055	3,636	3,620	3,620	3,620
Special Drawing Rights	1,371	1,290	1,407	5,445	5,456	4,673
Other Assets	6,327	169	143	196	633	1,028
Total Assets	47,471	45,081	43,857	65,286	69,570	70,353
Liabilities, Resources and Capital						
Reserve tranche positions						
Unremunerated	5,009	4,537	4,987	6,312	5,991	5,979
Remunerated	4,016	3,773	3,393	6,813	9,626	10,748
Total Reserve Tranche Positions	9,025	8,310	8,380	13,125	15,617	16,727
Borrowing[4]						
General Arrangements to Borrow	1,730	777	777	777	777	777
Oil Facility	6,329	4,257	2,474	1,528	526	197
Supplementary Financing Facility	—	—	502	2,018	4,112	4,969
Enlarged Access resources	—	—	—	—	1,358	1,595
	8,059	5,034	3,753	4,323	6,773	7,538
Other Liabilities	6,353	276	324	514	1,177	816
Reserves	713	760	763	843	935	939
Balance of subscribed capital	23,321	30,701	30,637	46,481	45,068	44,333
Total Liabilities, Reserves and Capital	47,471	45,081	43,857	65,286	69,570	70,353

See Page 31 for Table 1. Balance Sheet Notes.

Table 1. Balance Sheet Notes

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[1]These financial statements should be read in conjunction with the audited financial statements and related notes.

[2]As discussed in the text, to obtain Fund resources, a member uses its own currency to purchase an equivalent amount of currencies of other members or SDRs. Approved and undisbursed amounts available for purchase an equivalent amount of currencies of other members or SDRs. Approved and undisbursed amounts available for purchase by members under stand-by and extended arrangements as at April 30, were as follows.

(In millions of SDRs)

	1978	1979	1980	1981	1982	Oct. 31, 1982
Undisbursed balances of stand-by and extended arrangements	3,639	1,378	2,108	8,056	11,155	8,387

[3]Gold with depositories is valued on the basis of SDR 35 per fine ounce. As at April 30, the market value of the Fund's gold, based upon the London afternoon fixing price, was as follows:

(In millions of SDRs)

1978	1979	1980	1981	1982	Oct. 31, 1982
17,945	22,328	41,563	41,662	33,078	41,211

[4]Undrawn lines of credit as at April 30, were as follows:

(In million of SDRs)

	1978	1979	1980	1981	1982	Oct. 31, 1982
General Arrangements to Borrow	5,023	5,784	5,734	5,764	5,675	5,656
Supplementary Financing Facility	—	7,784	7,282	5,766	3,672	2,587
Enlarged Access resources	—	—	—	—	7,947	7,410

Table 2. Income, Expense, Net Income and Reserves Financial Years 1978-1982

(In millions of SDRs)

	Financial Years Ended April 30				
Operational Income					
Periodic charges	786.6	678.1	519.4	592.7	1,092.1
Interest on SDR holdings	39.8	57.1	81.8	265.8	657.2
Other	13.2	18.1	13.0	23.8	39.6
Total	839.6	753.3	614.2	882.3	1,788.9
Operational Expenses					
Remuneration	200.9	171.7	241.0	372.8	908.6
Interest	537.1	458.1	284.0	329.5	634.9
Other	3.6	3.9	—	—	—
Total	741.6	633.7	525.0	702.3	1,543.5
Net Operational Income	98.0	119.6	89.2	180.0	245.4
Administrative Expense	70.5	73.5	86.1	99.9	153.4
Net Income	27.5	46.1	3.1	80.1	92.0
Reserves:					
Special Reserve - beginning of year	320.9	348.4	394.5	397.6	477.7
- end of year	348.4	394.5	397.6	477.7	569.7
General Reserve	365.6	365.6	365.6	365.6	365.6
Total Reserves	714.0	760.1	763.2	843.3	935.3

Details may not add to totals due to rounding.

Table 3. Financial Terms of Fund Facilities as at October 31, 1982

	Interest Charge[1] (Per Cent)	Repayment Period[2] (Years)	Financed from
First credit tranche	6.6	3 - 5	Owned Resources
Higher credit tranches	6.6	3 - 5	
Extended Fund facility	6.6	4 - 10	
Compensatory financing facility	6.6	3 - 5	
Buffer stock financing facility	6.6	3 - 5	
Supplementary financing facility	12.075	3.5 - 7	Borrowed Resources
Enlarged access policy	12.55	3.5 - 7	

[1]Charges on loans under the supplementary financing facility and enlarged access resources are adjusted semi-annually on the basis of the Fund's cost of borrowing. Charges on other facilities are fixed but may be adjusted following a review of charges, as discussed below. Use of Fund credit in addition is subject to a service charge of 0.5 per cent.

[2]Repayments are to be made in quarterly installments over the period specified, and for other loans (loans under the extended facility, the supplementary financing facility, and the enlarged access policy) in semi-annual installments.

INTERNATIONAL MONETARY FUND

Guidelines for Borrowing by the Fund
Executive Board Decision—January 13, 1982

Quota subscriptions are and should remain the basic source of the Fund's financing. However, borrowing by the Fund provides an important temporary supplement to its resources. In present circumstances, it facilitates the provision of balance of payments assistance to its members under the Fund's policies of supplementary financing and enlarged access.

The confidence of present and potential creditors in the Fund will depend not only on the prudence and soundness of its financial policies but also on the effective performance of its various responsibilities, including, in particular, its success in prompting adjustment.

Against this background the Executive Board approves the following guidelines on borrowing by the fund.

1. Fund borrowing shall remain subject to a process of continuous monitoring by the Executive Board in the light of the above considerations. For this purpose, the Executive Board will regularly review the Fund's liquidity and financial position, taking into account all relevant factors of quantitative and qualitative nature.

2. Subject to paragraph 4 below, the Fund will not allow the total of outstanding borrowing plus unused credit lines to exceed the range of 50-60 per cent of the total of Fund quotas. If the total of outstanding borrowing plus unused credit lines reaches the level of 50 per cent of quotas, the Executive Board shall assess the various technical factors that

determine, at that time, the availability of balances of unused lines of credit. While this assessment is being made, the total of outstanding borrowing plus unused credit lines may rise, if necessary, beyond 50 per cent, but shall not exceed 60 per cent of total quotas.

3. Recognizing that the credit lines of all participants in the General Arrangements to Borrow (GAB) cannot be used at the same time and that the GAB can be activated only to finance purchases by a GAB participant, the total of outstanding borrowing plus unused credit lines under paragraph 2 above shall include, in respect of the GAB, either outstanding borrowing by the Fund under the GAB or one-half of the total of credit lines under the GAB, whichever is the greater.

4. In the case of major developments, the Executive Board shall promptly review, and may adjust, the guidelines. In any event, the guidelines shall be reviewed when the Board of Governors has completed the Eighth General Review of Quotas, and may be adjusted as a result of that review of the guidelines.

5. The percentage limits specified in paragraph 2 above, or any other limits that may be adopted as a result of a review pursuant to paragraph 4 above, are not to be understood, at any time, as targets for borrowing by the Fund.

Appendix II

Question and summary of answers reprinted from "The Outlook for International Bank Lending", a poll of 52 international banks, published by the Group of Thirty, August, 1981:

Q. 23. Do you think that the Fund itself would be able to borrow large amounts on the international financial markets and what, in your view, would be the best approach for the Fund to follow?

Respondents' Answers
(per cent)

Yes	No	N.A.
87	11	2

The simplified breakdown above needs qualification. The minority short-handed as "noes" consists of banks opposed to the concept of enlarged Fund borrowing from member countries and even more so from the markets, rather than banks which doubt the Fund's ability to borrow successfully if it so chooses.

The great majority believing that the Fund could and might, indeed, usefully borrow more from OPEC countries and other richer members, as well as from the markets, suggested a wide spectrum of possible assets that might be issued, from short-term paper to medium-term floating rate notes and, at the other end, longer-term fixed interest securities, although several banks argued against the emergence of the IMF as a competitor of the World Bank in international bond markets.

Many banks expressed the view also that IMF assets denominated in SDR might prove widely acceptable and at the same time make an

important contribution to the evolution of an international market in SDR assets.

Estimates of the amounts the IMF might raise from the markets, mainly from the authorities of some member countries, from banks and, marginally, from non-bank international insitutions, ranged from "vast" (undefined) to $5 billion a year (unexplained).

A point made by several banks is that the IMF's soverign immunity would need to be waived for market borrowing and that investors might need the option of immediate redemption of outstanding SDR securities in the event of further changes in the composition of the SDR. Moreover, the IMF would need to help provide a sufficient market to give investors assurance of reasonable liquidity.

An argument against IMF borrowing or borrowing from member countries at market-related terms was that this would push up the Fund's average cost of money and thus its lending rates, even though the Fund could expect to borrow on very fine terms.

The latter prospect, however, caused some bankers to question why OPEC and other member countries should wish to invest in IMF assets at returns below those safely available from the world's leading commerical banks.

The overwhelming view that the IMF could raise large sums if it wished was precisely the reason some bankers gave for opposing such an approach. "Any borrowing by the IMF would have a 'crowding out' effect and adversely affect the fund-raising ability of private lenders" was one comment. Another bank said the "danger" of large IMF market borrowing "could be a squeeze on banks' ability to fund their loan portfolios."

It was on such grounds, possibly more widely held than expressed, that one bank commented: "The very nature of resources (borrowed from the markets) does not seem quite appropriate to the Fund's requirements," (a reference to the distinction between the roles of the Fund in tiding countries over temporary balance of payments problems and commercial bank lending intended to increase countries' net foreign exchange earning capacity over time).

Other comments included the following:

"How would they do it? The fund certainly faced a number of mechanical problems. Can they convince the investors that they are good credit—other than the fact that this is the IMF, which although not a bank, has some kind of credit that will assure repayment?

"When you get down to it you will find that although the US banks would do a lot of typical analytical work, many European banks would simply take the view that the IMF is virtually the agency of the governments of the world, and as such would take a positive view about its credit.

"Many of them will regard the IMF in that way, that it is really the bank for the world and it would be in the interest of governments to see that it meets its obligations because if it doesn't we're going to have so many other problems to worry about this would be the least of them.

"We're telling the IMF that they should really write their prospectus and be very careful about presenting credit in the conventional way of looking at it."

Table 4
Use of the IMF's Credit and its Resources

Net Drawings (Net Repayments)

	$ billions*				
	1978	1979	1980	1981	1982
Under:					
General Resources	(2.6)	(1.6)	(1.8)	2.3	6.6
Other Facilities+	(0.5)	(4.0)	(2.0)	0.6	2.8
Total:	(3.1)	(5.6)	(3.8)	2.9	9.4

2. IMF Resources

	$ billion*				
	1978	1979	1980	1981	1982
"Usable" currencies #	14.6	11.6	13.6	27.1	19.1
IMF's SDR Holdings	1.8	1.7	1.8	6.2	6.0
Total:	16.4	13.3	15.4	33.4	25.3

Source: IMF, financial years to 30 April, *SDR data converted at SDR/$ exchange rates for each period. +other facilities are GAB (General Arrangments to Borrow), oil facility, SFF (Supplemengary Financing Facility). # usable currencies consist mainly of the currencies of the industrialized countries. All figures are rounded.

Table 5

IMF Resources and Liquidity Position

(estimates, March 1983)

	SDR billions	$ billions
Quota Resources		
1. Holdings of SDRs and Currencies Presently Usable in Loans to Members	15	16.5
Borrowed Resources		
2. Undisbursed Line of Credit (excluding GAB)	9	9.9
3. GAB Lines of Credit (½ of undrawn amount)	3	3.3
Prospective Use of Resources		
Undrawn Commitments under Existing Stand-by and Extended Arrangements	16	17.6
Of Which:		
4. To be Financed from Quota Resources	7	7.7
5. To be Financed from Borrowed Resources	9	9.9
Net Available Resources		
Subscribed Resources	8	8.8
7. Borrowed Resources (excluding GAB)	0	0
Claims on Fund		
8. Reserve Tranche Positions	21	23.0
9. Loan Claims	9	9.9

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